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The Conference Board

Volume 13, Number 4 April 1991

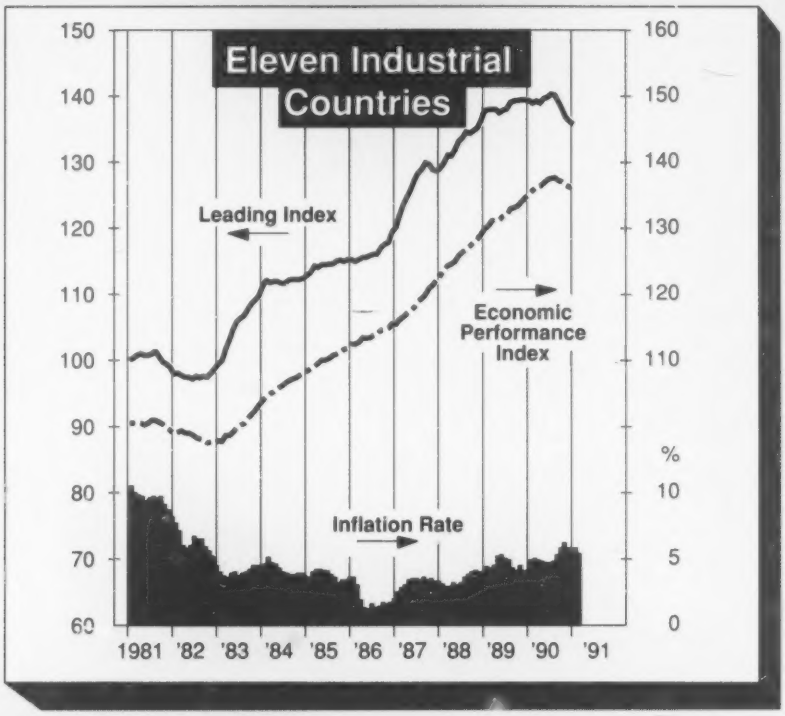
International Economic Scoreboard

INSIDE:

- **Global Economy — Downward Trend Continues.**
- **Leading Indexes Sagging in All Regions.**
- **Inflation — Little Response from the Recession.**

Serving Business and Society for 75 Years

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate	*Indexes of Economic Performance Growth Rates **			*Leading Business Cycle Indexes Growth Rates **			*Current Reading on the Cycle*	*Latest Month Covered*
	1976-86	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*		
Eleven countries	3	4	1	0	2	-2	-4	Expansion stopped, leaders weak	Jan.
Ten countries (U.S. excl.)	3	6	4	3	2	-2	-4	Expansion continuing, leaders weak	Jan.
North America (2)	3	1	-2	-6	1	-2	-5	Recession continuing, leaders weak	Jan.
Europe (4)	2	6	4	3	3	1	0	Expansion continuing, leaders weak	Jan.
Pacific Region (5)	4	7	4	5	2	-5	-8	Expansion continuing, leaders weak	Jan.
United States	3	0	-4	-7	1	-4	-3	Recession continuing, leaders weak	Feb.
Canada	3	1	-2	-7	-4	-4	-5	Recession continuing, leaders weak	Jan.
Germany	2	8	6	5	5	4	1	Expansion continuing, leaders weak	Feb./Jan.
France	2	7	6	5	4	0	0	Expansion continuing, leaders weak	Jan./Feb.
United Kingdom	2	1	-2	-3	-2	-3	-5	Recession continuing, leaders weak	Feb.
Italy	2	6	3	2	-1	-2	2	Expansion stopped	Oct./Jan.
Japan	4	7	5	5	1	-8	-9	Expansion continuing, leaders weak	Feb.
Korea, R.O.K.	7	8	3	7	3	6	1	Expansion continuing, leaders weak	Feb.
Australia	3	-4	-9	-9	-5	-3	0	Recession continuing, leaders weak	Feb.
New Zealand	2	0	-2	-4	-4	-4	-3	Recession continuing, leaders weak	Feb.
Taiwan, R.O.C.	8	-1	1	2	-3	0	3	Expansion stopped	Feb.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

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Overview

More Bad News To Come

Although economic prospects vary widely from country to country, weakness still dominates the global business cycle. The 11-country performance index is flat to down, and the leading index is falling gradually. This suggests the world economy, already sagging, has more bad news to absorb in the months ahead.

Five of the eleven nations are in recession, one more than last month. (The addition is the United Kingdom, which was a borderline case last month, but now its cyclical pattern looks more recession-like.) As noted in an earlier report, these five nations are all English-speaking, a fact we still regard as coincidental, not causal.

The indexes of the other six nations trace a mixed pattern. The most interesting — and worrisome — is Japan, where economic expansion has continued but the leading index points decisively in the other direction. The two largest economies in Europe, West Germany and France, also continue to expand, but their leading indexes have been flat for some months now.

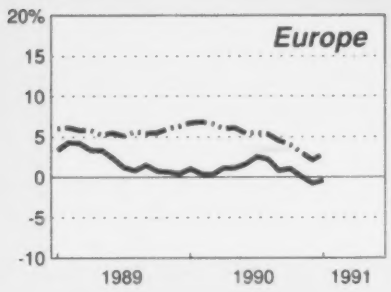
The global inflation picture has changed little of late. The 11-nation rate dropped just a notch this latest month, but it remains above the rate of the first half of 1990. We still expect some modest easing to take place in the months ahead.

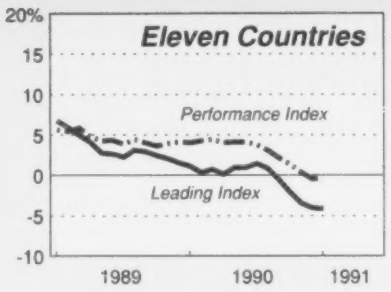
Summary of Inflation Rates, Eleven Industrial Countries

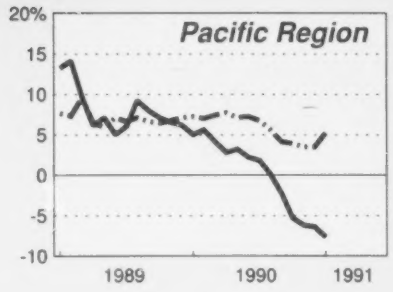
	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	5.3	5.8	5.4	Volatile	Feb.
Ten countries (U.S. excl.)	5.2	4.9	5.2	5.3	Rising	Feb.
North America (2)	5.6	5.9	6.2	5.6	Falling	Feb.
Europe (4)	6.6	5.9	5.5	4.9	Falling	Feb.
Pacific Region (5)	3.4	3.7	4.9	5.1	Rising	Feb.
United States	5.5	6.5	5.9	4.4	Falling	Mar.
Canada	6.5	3.8	5.5	8.0	High and Rising	Feb.
Germany	2.9	3.2	2.9	2.2	Falling	Mar.
France	7.3	3.6	3.9	3.4	Falling	Feb.
United Kingdom	7.3	11.5	8.3	6.4	Falling	Feb.
Italy	11.2	6.4	6.8	6.7	Steady	Mar.
Japan	2.5	3.0	4.3	4.6	Rising	Feb.
Korea, R.O.K.	8.1	9.8	8.6	10.5	High and Rising	Feb.
Australia	8.4	7.4	5.1	7.1	Volatile	Nov.
New Zealand	11.8	5.4	4.6	3.3	Falling	Feb.
Taiwan, R.O.C.	4.4	5.4	2.5	4.8	Volatile	Feb.

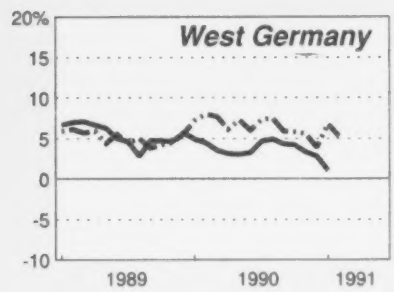
* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

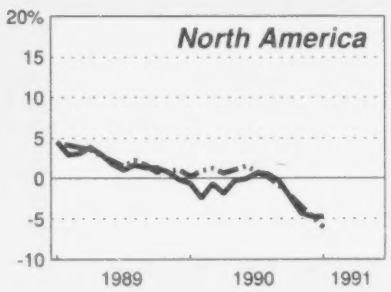
Tracking the Global Cycle

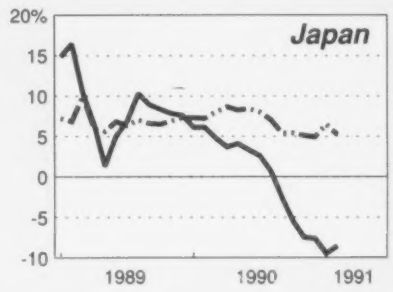


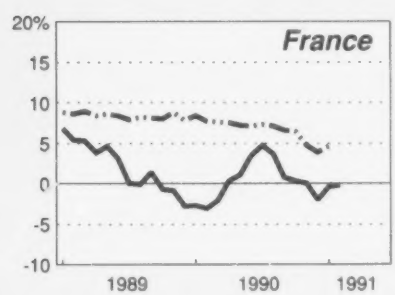


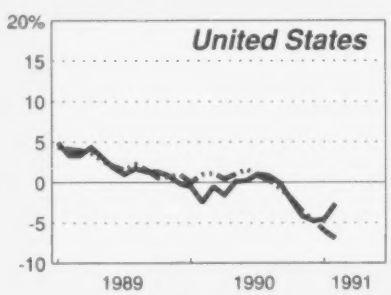


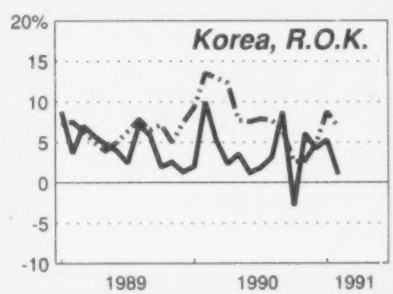


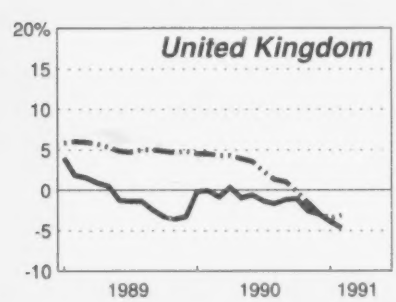


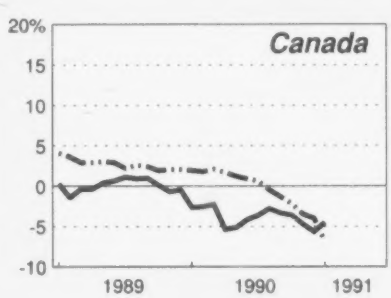


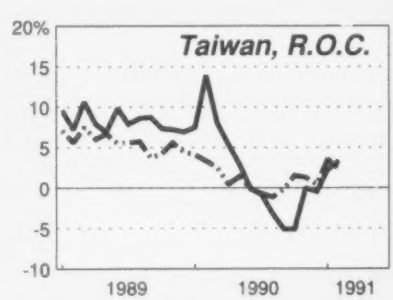


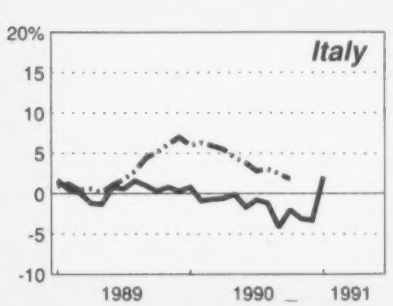


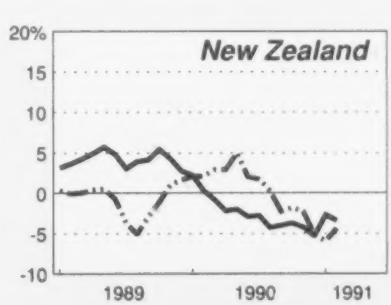


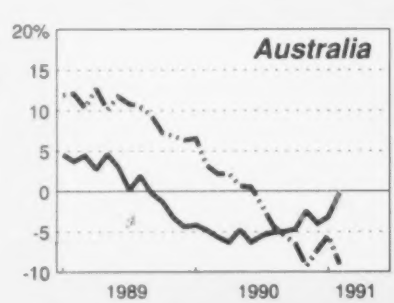










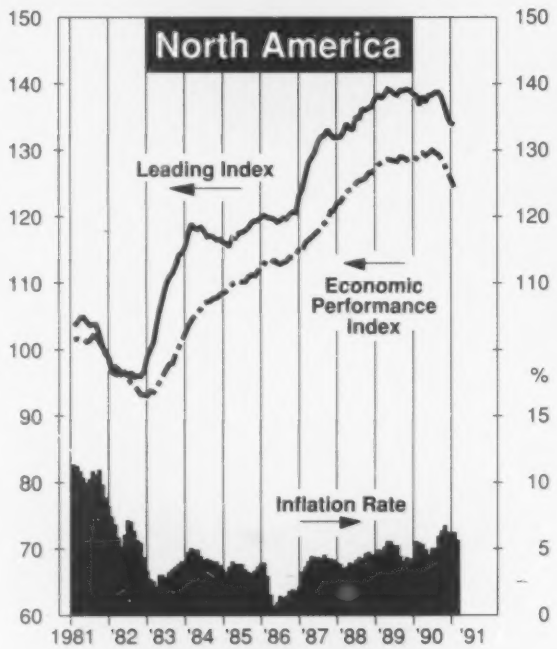


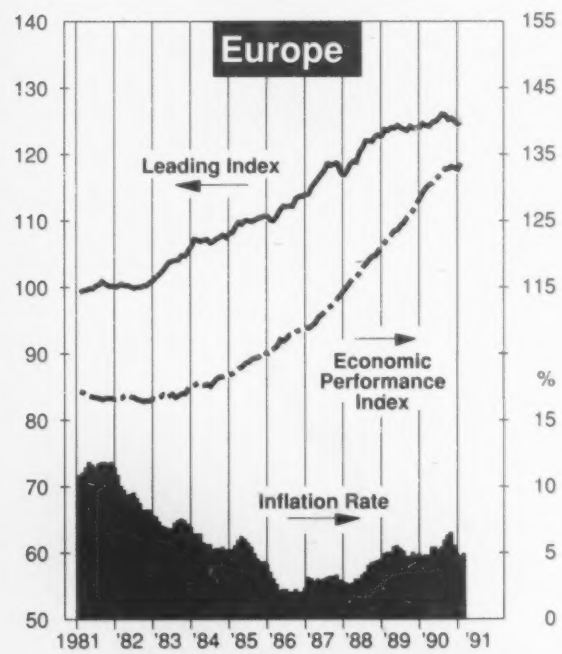
Regions

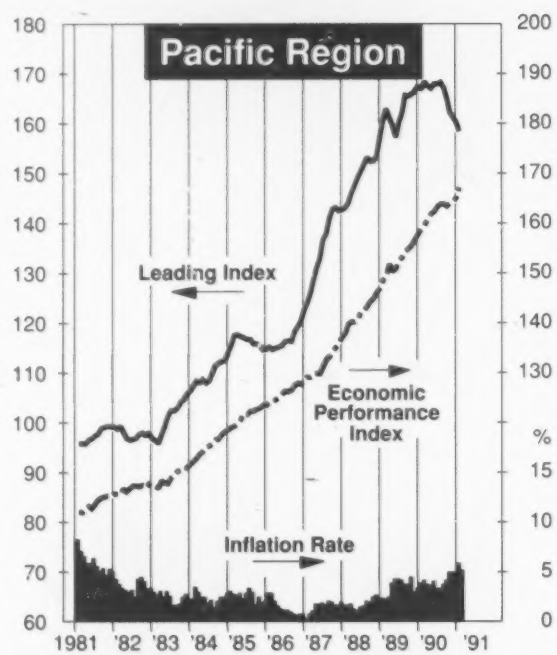
Each of the three regions has a distinctive pattern of its own again this month. North America is in recession, with the leaders still pointed down. The Pacific region (reflecting the dominant size of Japan) is still expanding but its leading index is declining sharply, indicating that the economic expansion in that part of the world is likely to weaken. Europe is also still expanding, but more gradually than before, and its leading index is now virtually dead flat.

The charts to the left show the *growth rates* of the business cycle indexes for every region and country, all plotted on the same scale to ensure comparability. This series of charts is revealing in several ways. First, they make it easier to see how the global recession is spreading. The clear message is that the adverse trends are worldwide. With the possible exception of Korea, every region and country shows some degree of weakness, either a slowing or a decline in its leading index or its performance index or both.

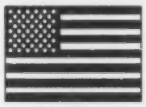
Second, these charts make it easy to compare the timing and intensity of the cyclical downturn from country to country (primarily by examining the performance index — dashed line). The recession hit Australia and Canada earliest, then the United States, the United Kingdom, and New Zealand. The other countries are not in recession, as of our latest data, although Taiwan came close in mid-1990.







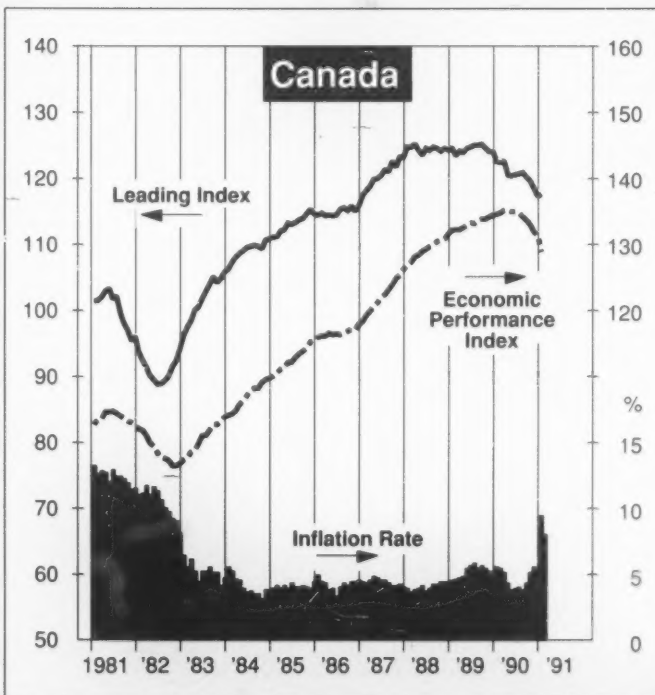
Countries



Recovery Watch

At the latest reading, the U.S. recession continues. But the early indicators are no longer universally weak. In February, the leading index climbed a point, thanks to gains in stock prices, new business formation, and new housing permits, and March may show another gain. However, a careful review of the many signs and portents shows a wide mix of evidence. The timing of a business cycle upturn is still a tough call.

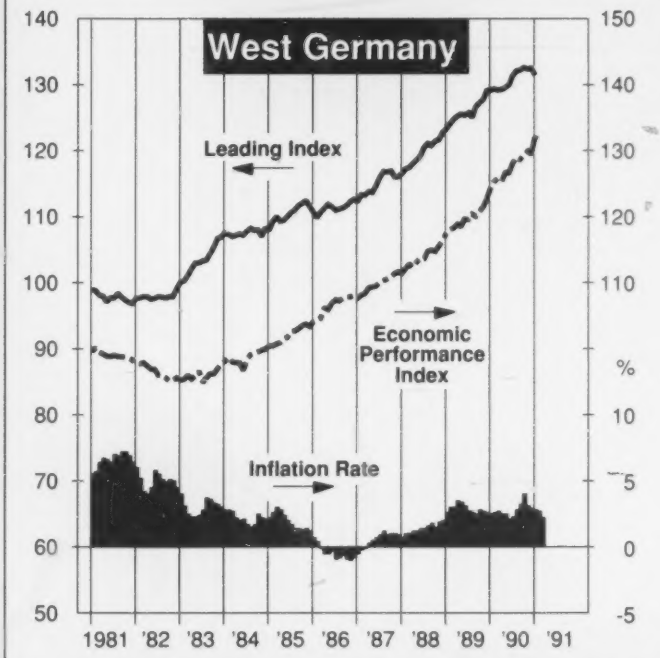
History tells us, however, that in most recessions the upturn takes place with little advance warning. Accordingly, it is a reasonable bet that the U.S. recession will end soon, maybe this spring, or during the summer. The headlines will continue to be black for a while, partly because the statistical reports lag events and partly because pessimism about the economy is still fashionable. But better news will begin to shine through before too long.



It's Not Over Yet

Fifteen months — that is how long Canada's leading index has been falling, and the decline has not slowed. With its largest trading partner, the United States, also in recession, Canada's prospects for economic growth in 1991 are not at all favorable. Unemployment is already over 10 percent and is still climbing.

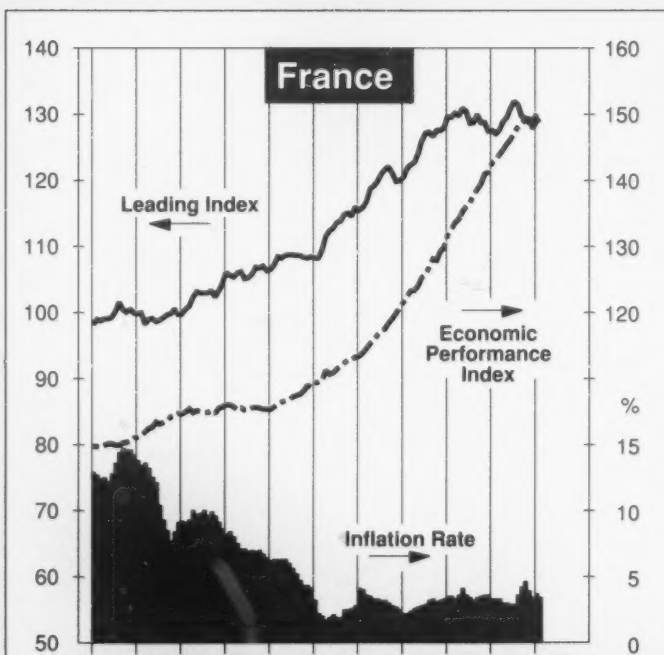
Since the sharp drop in interest rates, Canada's business confidence has shown signs of improvement. With mortgage rates and home prices both lower, housing demand may improve and help generate a recovery. Thus far, however, no such signs are being signalled by the leading index.



Tale of Two Germanies

Once again, what had been a very favorable outlook for the West German economy shows signs of deteriorating. Its leading index, which was advancing vigorously last summer, is now essentially flat.

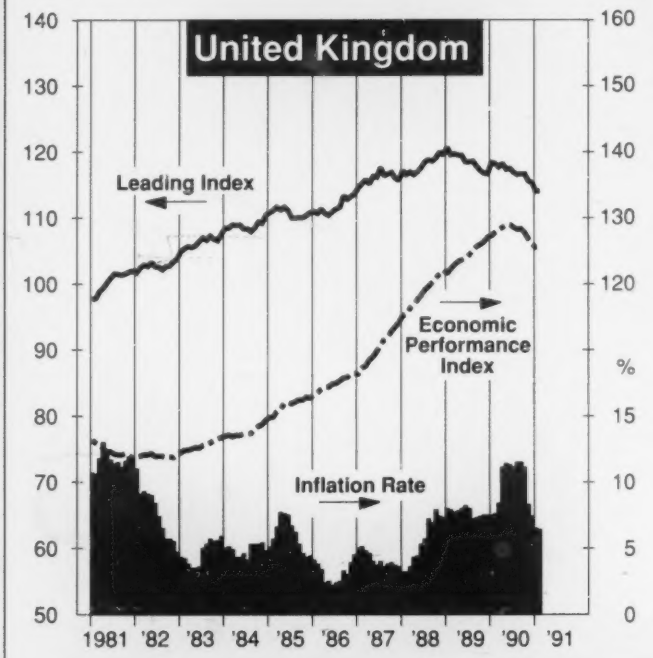
The main problem for West Germany is East Germany. The euphoria of reunification has vanished. In its place is the burden of restructuring an outmoded industrial plant. Most analysts continue to forecast a "better-than-others" growth rate for 1991, but clearly the bloom is off the reunification rose.



Slowdown Confirmed

The official forecast for economic growth in France for 1991 has been cut back to 2 percent this year. Declining industrial production, stagnant investment, a rising current account deficit, and increasing unit labor costs are cited as the main reasons for the slower growth forecast.

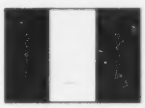
The prospect of a cyclical slowdown is confirmed by the flattening of the leading index since last summer. Indeed, economic growth could be reduced below the official forecast, although recent gains in the French stock market have discouraged the more pessimistic analysts.



No Recovery in Sight

The U.K. leading index has been declining since mid-1989, which led to the current cyclical downturn of the economy. Among the major economic statistics, the unemployment data have been the most negative; production and retail sales data have been mixed.

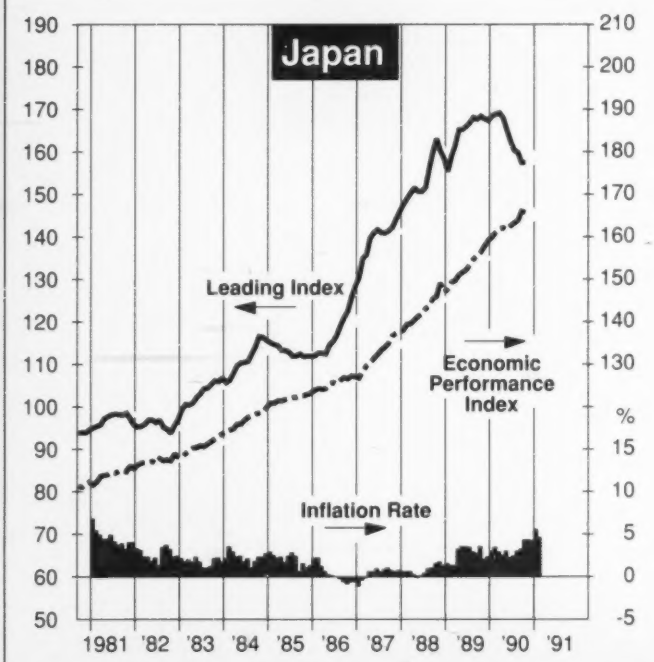
By contrast, weakness among the leading indicators — other than stock prices — has been quite widespread. At the moment, therefore, little evidence is available that points to an early end of the recession.



More Confusion than Clarity

Although the Italian statistics — partly because of their typically long delays — are again difficult to read with confidence. On the surface, Italy's economy appears to be growing at a reasonable pace — by 3 percent in 1989 and by 2 percent in 1990. This past year there was no growth in the industrial sector, but strength in consumption and investment sustained the economy's forward momentum.

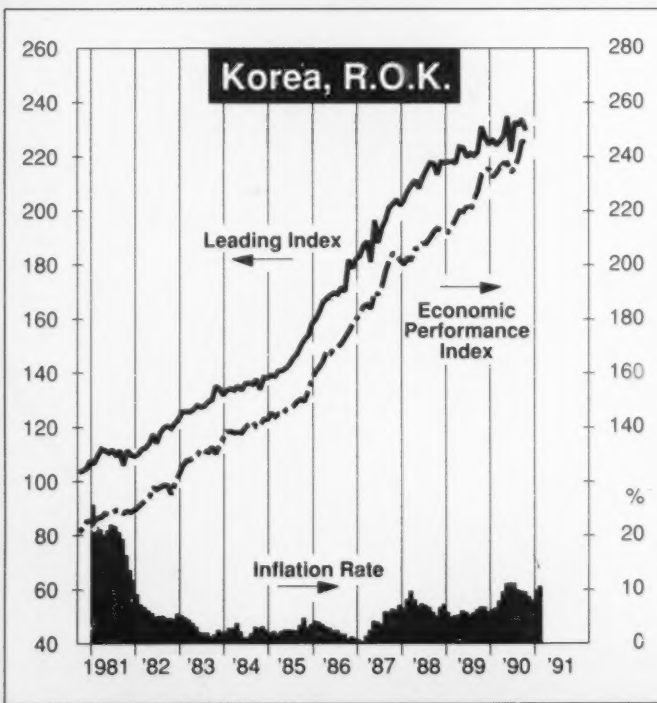
As we look ahead, the leading index is more a source of confusion than of clarity. After sagging steadily throughout 1990, the leading index climbed sharply in January, thanks almost solely to a dramatic rally in stock prices. At this point, perhaps the best we can look for is more slow growth for 1991.



Mixed Bag

Japan is a study in contrasting numbers. Its performance index is growing at a healthy 5 percent rate. At the same time, however, its leading index is declining at a 9 percent pace. Accordingly, the Japanese economy, like most other industrialized countries, is showing signs of cyclical weakness.

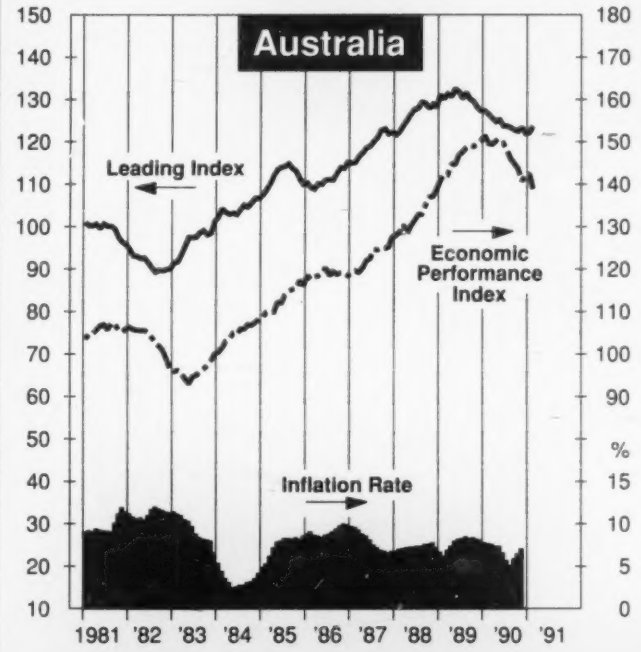
A survey by the Economic Planning Agency of Japan shows that capital spending — about 15 percent of GNP — will be growing at a trivial 1.2 percent rate in 1991. This would be the first year that investment growth was below 10 percent since 1987. Recent declines in business confidence and flat retail sales and industrial production are other key indicators of where the economy is headed — toward a cyclical slowdown. As the chart shows, the declines in the leading index, in 1982 and 1985, did not result in a general economic downturn in the performance index. The recent pattern of the leading index, however, is more worrisome than in those earlier periods.



Immune from Recession?

Throughout the current global economic slowdown, Korea has been the exception. Both its performance and leading indexes have advanced faster than in the other countries reported here. This record was confirmed by Korea's 9 percent GNP growth rate for 1990. What is going on? Don't the Koreans know the global economy is slowing down?

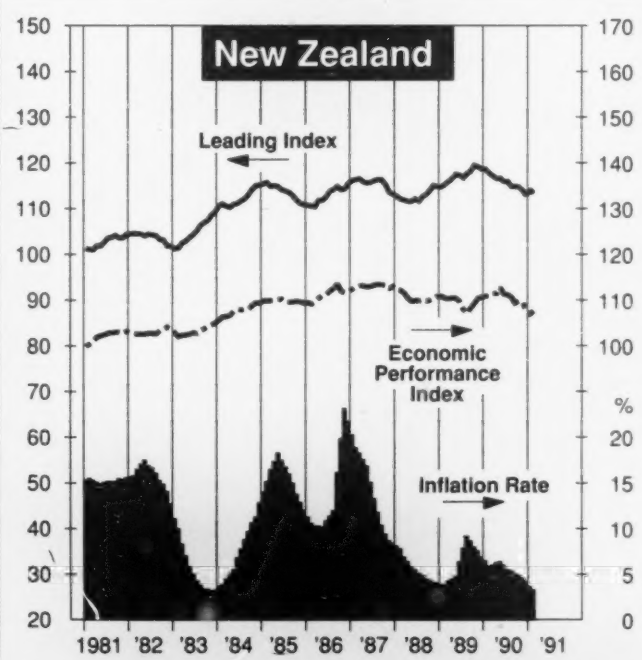
The largest component of Korean growth last year was domestic construction, which increased by 56 percent. This offset the trade deficit resulting from higher oil imports and lower export demand. If domestic construction and its export markets slow down this year as expected, Korea's economy will start to weaken, too. The United States and Japan represent more than 50 percent of Korea's export markets; with these two economies weak, Korea will register slower growth in 1991, perhaps around 5 to 7 percent.

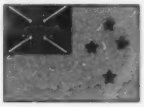


Dim Light at the End of the Tunnel

Although it was the first country to enter the current global economic slowdown, Australia's recovery is not yet in view. Many analysts do not expect a revival to begin until the third quarter of this year.

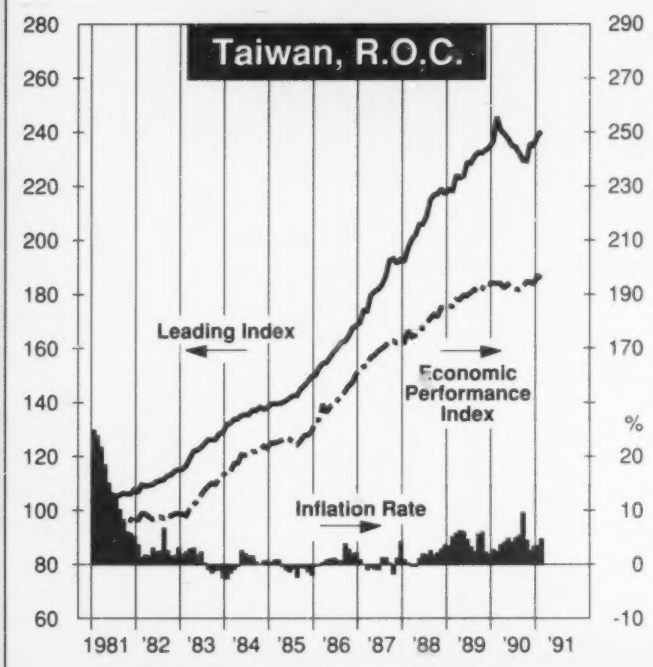
The unemployment rate, currently around 8 percent, is expected to rise to 9.5 percent sometime this year. The one ray of hope, a modest ray, is the fact that the leading index stopped falling as of last October.





Bumpy Ride

For a year now, the New Zealand economy has been declining gradually. The United States, Australia, and Japan represent nearly half of New Zealand's trade, which is probably enough by itself to put New Zealand into recession. It also suggests that prospects for an early recovery are limited. Any stimulus, at least initially, must come from internal sources.



An Improved Outlook

Watching the Taiwanese economic numbers over the past year is like watching a bouncing ball — last year, the growth rate of the performance index changed direction seven times. According to the current pattern of the indicators, however, Taiwan's outlook for 1991 seems to be better than 1990. Nevertheless, rising inflation (up to 7 percent in 1991 compared to 4 percent in 1990), and rising capital equipment imports from the United States will hinder growth somewhat.

A major uncertainty is Taiwan's current political reform — the first of its kind since the 1940s. Government investment in infrastructure and capital equipment purchases by the private sector will fuel growth this year. In sum, we expect Taiwan's economy to grow about 7 percent in 1991.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too— typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

David Chon, Editor

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1989-91

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980=100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	89	133	139	137	139	128	139	126	124	155	166
Nov.	89	134	140	138	139	128	139	127	124	156	166
Dec.	89	135	140	139	139	129	138	128	124	157	167
Jan.	90	135	139	140	140	128	138	129	124	158	167
Feb.	90	136	139	141	140	129	136	130	124	159	168
Mar.	90	136	139	141	140	129	138	130	124	160	167
Apr.	90	136	139	142	139	129	137	130	125	161	166
May	90	137	140	142	140	129	138	131	125	162	168
June	90	137	140	143	141	130	138	131	125	163	168
July	90	138	140	144	141	129	138	132	126	163	168
Aug.	90	138	140	144	140	129	138	133	126	163	167
Sept.	90	137	139	144	139	128	138	133	125	163	165
Oct.	90	137	138	144	138	127	136	133	125	164	162
Nov.	90	137	137	144	137	126	134	133	125	164	161
Dec.	90	136	136	144	137	125	134	132	124	165	160
Jan.	91	136	136	145	136	124	134	133	125	167	158

	11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
	Growth Rates, Percent									
	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct. 89	4	3	6	3	1	1	6	1	6	7
Nov. 89	4	2	6	3	1	1	6	1	7	7
Dec. 89	4	2	6	3	1	0	6	0	7	6
Jan. 90	4	1	7	3	0	-1	7	1	7	5
Feb. 90	4	0	7	3	1	-3	7	0	7	6
Mar. 90	5	1	7	2	1	-1	7	0	7	4
Apr. 90	4	0	6	2	1	-2	6	1	8	3
May 90	4	1	6	2	1	0	6	1	7	3
June 90	4	1	6	2	2	0	5	2	7	2
July 90	4	2	6	2	1	1	6	3	7	2
Aug. 90	3	1	5	1	0	1	5	2	6	0
Sept. 90	2	-1	4	-1	-1	0	5	1	4	-2
Oct. 90	1	-2	4	-2	-2	-2	4	1	4	-5
Nov. 90	0	-3	3	-3	-4	-4	3	0	4	-6
Dec. 90	0	-4	2	-4	-5	-5	2	-1	4	-6
Jan. 91	0	-4	3	-4	-6	-5	3	0	5	-8
	Ten Year Annual Growth Rate, Percent									
	3	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1989-91

		United States		Canada		West Germany		France		United Kingdom		Italy		Japan		Korea, R.O.K.		Australia		New Zealand		Taiwan, R.O.C.	
		Indexes, 1980=100																					
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	89	128	140	134	125	121	127	140	129	126	117	116	117	152	166	222	220	149	130	109	120	192	232
Nov.	89	128	140	134	124	122	128	141	129	127	117	117	118	154	167	220	222	150	128	110	119	194	233
Dec.	89	128	140	134	124	123	129	141	128	127	117	118	117	155	168	224	221	150	127	111	119	194	234
Jan.	90	128	139	135	123	124	129	143	128	127	118	118	118	156	168	228	222	152	127	111	119	194	236
Feb.	90	128	138	135	122	125	129	143	127	128	118	119	116	156	168	234	231	150	127	111	118	194	246
Mar.	90	129	139	135	123	126	129	144	128	128	118	119	117	158	168	235	227	150	126	112	117	194	241
Apr.	90	128	138	135	120	125	129	145	129	128	118	120	117	159	167	236	225	150	125	112	116	192	239
May	90	129	140	135	120	127	130	146	130	129	117	119	117	160	168	233	227	149	125	113	117	194	238
June	90	129	140	135	121	127	130	146	131	129	117	120	116	161	169	234	225	150	124	111	116	192	235
July	90	129	140	135	121	128	131	147	132	128	117	119	117	162	169	236	226	148	124	111	116	192	234
Aug.	90	128	140	134	121	129	132	148	132	128	116	120	116	162	168	238	228	146	123	111	115	192	232
Sept.	90	128	139	134	120	129	132	149	130	128	117	120	114	162	165	238	235	145	123	109	115	193	230
Oct.	90	127	138	133	120	129	133	149	130	128	117	120	115	163	163	234	222	144	122	110	115	195	229
Nov.	90	126	136	132	118	130	132	149	129	127	116		114	163	160	236	233	141	123	110	114	195	236
Dec.	90	125	135	131	117	130	132	149	128	126	115		114	164	160	240	232	142	122	108	113	194	235
Jan.	91	124	135	129	118	132	132	150	129	126	114		117	166	158	246	234	143	122	107	114	197	239
Feb.	91	122	136			132			129	126	114			166	158	245	230	139	124	108	113	196	240
		Growth Rates, Percent																					
Oct.	89	1	1	2	0	4	5	8	-1	5	-3	5	0	7	8	7	2	7	-1	-1	5	4	7
Nov.	89	1	1	2	-1	5	5	9	-1	4	-4	6	1	7	8	5	3	7	-3	1	4	6	7
Dec.	89	1	0	2	-1	6	6	8	-3	5	-3	7	0	7	8	7	1	6	-4	2	3	4	7
Jan.	90	0	-1	2	-3	7	5	8	-3	5	0	6	1	7	6	9	2	7	-4	2	2	4	8
Feb.	90	1	-3	2	-3	8	5	8	-3	5	0	6	-1	7	6	14	10	3	-5	2	0	3	14
Mar.	90	1	-1	2	-2	8	4	8	-2	4	-1	6	-1	8	5	13	5	2	-6	3	-1	3	8
Apr.	90	0	-2	2	-5	6	3	8	0	4	-0	6	-1	9	4	12	2	2	-6	3	-2	0	5
May	90	1	0	1	-5	7	3	7	1	4	-1	5	0	8	4	8	4	1	-5	5	-2	1	3
June	90	2	0	1	-4	6	3	7	3	4	-1	4	-2	8	3	8	1	1	-6	2	-3	0	0
July	90	1	1	1	-4	7	5	7	5	2	-1	3	-1	8	3	8	2	-2	-6	2	-3	-1	-1
Aug.	90	0	1	-1	-3	8	5	7	4	1	-2	3	-1	7	1	8	3	-4	-5	0	-4	-1	-3
Sept.	90	-1	0	-1	-3	6	4	7	1	1	-1	3	-4	5	-3	7	9	-6	-5	-2	-4	0	-5
Oct.	90	-2	-2	-2	-4	6	4	6	0	0	-1	2	-2	5	-6	3	-3	-7	-5	-2	-4	2	-5
Nov.	90	-4	-4	-4	-5	6	3	5	0	-2	-3		-3	5	-8	3	6	-9	-3	-2	-4	1	0
Dec.	90	-5	-5	-4	-6	4	3	4	-2	-3	-3		-3	5	-8	5	4	-7	-4	-5	-5	0	-1
Jan.	91	-6	-5	-7	-5	7	1	5	-1	-4	-4		2	7	-10	9	5	-6	-3	-6	-3	4	2
Feb.	91	-7	-3			5			0	-3	-5			5	-9	7	1	-9	0	-4	-3	2	3
		Ten Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	7	7	3	3	2	2	8	8